Progress Energy

April 24, 2006

Mr. Charles Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
P. O. Drawer 11649
Columbia, South Carolina 29211

RE: PSC Docket No. 2006-1-E

Dear Mr. Terreni:

Attached for filing is an original and 15 copies of Progress Energy Carolinas, Inc.'s Response in Opposition to Nucor Steel's Motion to Compel in the above-referenced docket.

Yours very truly,

/s/ Len S. Anthony

Len S. Anthony
Deputy General Counsel-Regulatory Affairs

LSA:mhm

c: Office of Regulatory Staff

233586

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2006-1-E

Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. Annual Review of Base Rates for Fuel costs	))))	**PROGRESS ENERGY CAROLINAS, INC.'S RESPONSE IN OPPOSITION TO NUCOR STEEL'S MOTION TO COMPEL**

Pursuant to the Public Service Commission of South Carolina's ("the Commission") Rule 103-830, Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. ("PEC") submits its Response in Opposition to Nucor Steel's Motion to Compel PEC to provide the information requested by Nucor in Item No. 1-30 of Nucor's discovery request. As explained below, Nucor is simply wrong in its assertions and its position is disingenuous.

Nucor has requested through discovery comprehensive hourly information about the revenues, billing, and accounting associated with PEC's Real Time Pricing Tariff (Rate Schedule LGS-RTP-6, which PEC will refer to as "RTP"). Basically, customers taking service under this tariff (all of whom are large industrial customers) are billed a real time pricing rate for all kilowatt hours consumed above a certain level. The rate consists of: an administrative charge, a baseline usage charge at standard tariff rates, a facilities demand charge, and an energy charge for usage that differs from the baseline usage based upon PEC's marginal fuel costs, variable operating and maintenance costs, and delivery losses (a copy of the tariff which specifically spells out the elements of the energy rate is attached for the Commission's convenience). Importantly, PEC's only use of marginal fuel costs, along with variable operating and maintenance costs and delivery losses, is to derive the price to be charged the RTP customers.

PEC's Fuel Cost Rider 39V establishes the rate to be billed by PEC to all retail customers on a per kwh basis to recover PEC's fuel cost on an average system fuel cost basis. The current rate is 2.2 cents per kwh. For PEC's RTP customers, PEC treats 2.2 cents of the amount billed per kwh as fuel cost recovery and credits that amount against PEC's total fuel cost just as it does for amounts billed under every other PEC tariff.

Nucor claims the information it has requested regarding PEC's RTP revenues and billing is relevant to PEC's fuel case because Nucor wants to concoct an argument that PEC is over-recovering its fuel cost based upon the rates it charges its RTP customers. The bogus theory in its simplest form can be expressed as follows:

> Under Rider 39V PEC recovers its fuel costs by recovering from each customer a rate per kwh based on PEC's average system fuel costs. PEC is recovering its marginal fuel cost to serve the RTP customers via the RTP. PEC's marginal fuel cost is always above its average system fuel costs. Therefore, since PEC is recovering more than its average system fuel costs from its RTP customers, PEC is over-recovering its fuel costs.

This argument is bogus for several reasons. First, as explained above, the only use of marginal fuel costs in PEC's RTP rate is to derive a price that signals to the customer PEC's then current cost of energy. It has nothing to do with fuel cost recovery. Rider 39V is the mechanism approved by the Commission for the recovery of PEC's fuel costs.

Secondly, there are hours during the year when the marginal fuel cost to serve PEC's RTP customers is less than its yearly average system fuel cost. Thus, for those periods of time, using Nucor's theory, PEC is not recovering its total fuel costs.

Thirdly, as explained above, as required by Rider 39V, PEC treats 2.2 cents/kwh of the amount billed to its RTP customers as fuel cost recovery, and credits that amount against its total fuel cost. This holds all other ratepayers harmless against RTP customer decisions to increase or reduce purchases in response to RTP hourly pricing. The RTP revenues received by PEC above and beyond the 2.2 cents/kwh are used to cover PEC's other costs of providing service, i.e., operating and maintenance costs, depreciation, taxes, etc. This is the same accounting treatment applied by PEC and every other electric utility to the energy rates charged to all of their other customers. That is, the RTP energy rate is intended to allow the utility to recover all of its costs, not just marginal fuel costs.

Fourthly, if Nucor's approach is accepted this would effectively result in all RTP sales being excluded from the cost of service in future rate cases. In its Order No. 97-130 in Docket No. 97-057-E, the Commission made no decision regarding rate treatment of RTP sales. This allowed PEC to research customer response to dynamic pricing and better understand how this could influence future resource needs. PEC and the Commission recognized that as a voluntary program, RTP revenue would most likely be less than revenue under standard tariffs; but did not address how the revenue deficiency would be treated for ratemaking purposes. Adoption of Nucor's position effectively answers this question by stating that RTP sales will never be assigned their full cost of service thereby effectively being subsidized by other ratepayers. PEC does not believe this is an appropriate issue to be decided in a fuel proceeding absent a full cost of service review of the issue.

Fifthly, Nucor's witness in Docket No. 2005-1-E suggested that RTP revenues be treated the same as those derived from off-system wholesale sales. With regard to such off-system sales, PEC credits its total system fuel costs the replacement cost of the fuel used to make the sale. The goal being to hold the retail customer harmless from PEC's wholesale transactions, which is what this methodology does. But, PEC's RTP customers are retail customers and their kwh consumption should be treated like all other retail customers. Any excess revenues above PEC's average system fuel costs supports base rates and is not relevant to this fuel cost proceeding.

Finally, it must be noted that because Nucor is on a curtailable rate schedule, it more closely resembles a wholesale off-system sales customer than do PEC's RTP customers, yet Nucor is only billed for average system fuel costs. Under the curtailable rate schedule pursuant to which PEC provides service to Nucor the rates charged by PEC for sales that are curtailable do not include any generation fixed cost recovery. Rather, the Nucor rate treats Nucor as if PEC only sells energy to Nucor when PEC has excess energy available that is not needed to serve PEC's other retail customers, which is exactly the situation associated with PEC's off-system wholesale sales. Thus, if Nucor's theory is that off-system sales fuel cost allocation theories should be applied to retail customers, Nucor should be charged for the replacement cost of the fuel used to serve them, rather than the lower average system cost. Thus, if the Commission were to accept Nucor's theory with regard to PEC's RTP customers, it must then allow PEC to charge Nucor a fuel factor that reflects the replacement cost of the fuel used to serve Nucor, rather than PEC's average system fuel costs.

It is obvious based upon the above discussion that Nucor's argument is simply wrong and the information in question is not relevant to this proceeding. Thus, Nucor's Motion to Compel should be denied.

WHEREFORE, PEC requests the Commission to deny Nucor's Motion to Compel.

Respectfully filed this 24th day of April, 2006.

PROGRESS ENERGY CAROLINAS, INC.

/s/ Len S. Anthony

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LARGE GENERAL SERVICE
(EXPERIMENTAL - REAL TIME PRICING)
SCHEDULE LGS-RTP-6

AVAILABILITY

This Schedule is available for electric service on an experimental basis to a maximum of fifteen (15) nonresidential customers with a Contract Demand that equals or exceeds 1,000 kW.

This Schedule is not available: (1) for short-term or temporary service; (2) for electric service in conjunction with Curtailable Load Rider No. 58, Incremental Power Service Rider IPS, Dispatched Power Rider No. 68, Standby and Supplementary Service Rider No. 7, Customer Generation Service Rider No. 55, and Economic Development Rider ED; (3) to a customer who had discontinued receiving service under this Schedule, or its predecessor, during the previous 12 months; (4) for any new customer with a Contract Demand in excess of 50,000 kW; or (5) for service rendered on and after December 31, 2007. Power delivered under this Schedule shall not be used for resale, or as a substitute for power contracted for or which may be contracted for under any other schedule of Company, except at the option of Company, under special terms and conditions expressed in writing in the contract with Customer. Customer shall be required to furnish and maintain a communication link and equipment suitable to support remote reading of Company's meter serving Customer and to support daily receipt of the Hourly Real Time Pricing (RTP) Rates.

APPLICABILITY

This Schedule is applicable to all electric service of the same available type supplied to Customer's premises at one point of delivery through one meter.

TYPE OF SERVICE

The types of service to which this Schedule is applicable are alternating current, 60 hertz, three-phase 3 or 4 wires, at Company's standard voltages of 480 volts or higher. When Customer desires two or more types of service, which types can be supplied from a three-phase 4 wire type, without voltage transformation, only the type of service necessary for Customer's requirements will be supplied under this Schedule.

CONTRACT DEMAND

The Contract Demand shall be the kW of demand specified in the Service Agreement.

CUSTOMER BASELINE LOAD (CBL)

Company shall establish a Customer Baseline Load (CBL), expressed in kilowatt-hours, using one complete year of Customer-specific hourly load data that, in Company's opinion, represents Customer's electricity consumption pattern and is typical of Customer's operation for billing under the otherwise applicable tariffs and from which to measure changes in consumption for billing pursuant to this Schedule. For situations in which hourly load data are not available, a CBL will be constructed by Company using load shapes of customers with similar usage patterns and from relevant information provided by Customer and verified by Company. Establishment of a CBL is a precondition for use of this Schedule.

CBL DETERMINATION

The CBL shall be adjusted at Company's sole discretion to reflect: (1) installation of permanent energy efficiency measures; (2) permanent removal or addition of Customer's equipment; (3) one-time extraordinary events such as natural disasters; (4) annual plant shutdowns or other random variations in the load patterns; and (5) other changes in usage. After the initial CBL is established, it shall only be subject to a downward adjustment at Customer's request by providing 30 days advance written notice of a permanent reduction of electrical load due to the installation of demonstrable energy efficiency measures or removal of Customer's equipment. Such downward adjustment is subject to Company's concurrence.

CBL CALENDAR MAPPING

To provide Customer with the appropriate CBL for the RTP Service Year, the hourly consumptions established by the CBL shall be calendar-mapped to the corresponding day of the RTP Service Year. Calendar-mapping is a day-matching method to ensure that Mondays are matched to Mondays, holidays to holidays, etc.

The CBL shall be established by first identifying holidays and then grouping the remaining days, i.e., Mondays, Tuesdays, etc, and averaging over the calendar month to result in hourly consumption for a typical week in each calendar month. The CBL result shall then be adjusted for each calendar month to reflect annual plant shutdowns, holidays, or other known work stoppages during the next RTP Service Year. Calendar-mapping is performed prior to each annual renewal of service under this Schedule after adjustments, if any, are made to the CBL.

MONTHLY RATE

The monthly rate shall consist of the following charges:

I. RTP Administrative Charge:

$500.00

II. RTP Base Charge:

RTP Base Charge = Monthly Bill for the hourly CBL consumption of the current billing month pursuant to the conventional LGS Class tariffs under which Customer either previously received service or would have elected to receive service prior to electing this Schedule.

III. RTP Hourly Energy Charge Adjustment:

RTP Hourly Energy Charge = ∑ {Hourly RTP Rate X (Hourly Consumption - CBL Consumption)}

where:

∑ = The summation of the RTP charges and credits for each hour of the current billing month.

The Hourly RTP Rate shall be determined based upon the following formula:

Hourly RTP Rate = (MENERGY + CAP + ADDER) X (1 + TAXES)

where:

MENERGY = Marginal Energy Cost per kilowatt-hour including marginal fuel, variable operating and maintenance expenses, and delivery losses

CAP	=	Tiered Capacity Charge per kilowatt-hour applicable whenever the day-ahead forecast of the ratio of hourly available generation to hourly demand is equal or less than 1.15
ADDER	=	β X (Class Rate-Hourly Marginal Cost), but not less than zero.

where:

β	=	a fixed value equal to 0.20
Class Rate	=	the prior calendar year average rate per kilowatt-hour under the conventional tariffs applicable to the LGS class, as updated annually effective with the February billing
Hourly Marginal Cost	=	the sum of the specific hour's kilowatt-hour price for MENERGY and CAP, all as defined above
TAXES	=	South Carolina Gross Receipts Tax (currently 0.3%)

IV. Facilities Demand Charge:

per kW of Facilities Demand for service provided from:

Transmission System (voltage of 69 kV or higher) without transformation	$1.74/kW
Transmission System (voltage of 69 kV or higher) with one transformation	$2.17/kW
Distribution System (voltage below 69 kV) without transformation	$2.34/kW
Distribution System (voltage below 69 kV) with one transformation	$2.66/kW

The kW of Facilities Demand shall be the greater of (1) the Contract Demand or (2) the maximum demand registered or recorded by Company's meter during a 15-minute interval in the current billing month, in excess of the maximum demand included in the CBL applicable to the current billing month. The Facilities Demand shall include any Standby Service kW, when applicable.

PROVISION OF STANDBY SERVICE

If service is received under a standby service tariff prior to service under this Schedule, the use of standby service shall be excluded from initial determination and update of the CBL. The RTP Base Charge, as set forth in the Monthly Rate provision above, shall include billing of Supplementary Service but shall not include any charges related to reservation or use of Standby Service. If Standby Service is provided, Customer must contract to receive service under Standby Service Rider No. SS, or its successor. However, notwithstanding any provisions of Rider SS, the Demand Delivery Charge, Daily Demand Charge and Energy Charge shall not be applicable for billing purposes under this Schedule. Any use of Standby Service shall be billed pursuant to the RTP Hourly Energy Charge provisions of this Schedule.

POWER FACTOR ADJUSTMENT

When the power factor in the current billing month is less than 85%, the monthly bill will be increased by a sum equal to $0.30 multiplied by the difference between the maximum reactive kilovolt-amperes (kVAr) registered by a demand meter suitable for measuring the demand used during a 15-minute interval and 62% of the maximum kW demand registered in the current billing month.

CUSTOMER RATE NOTIFICATION

Company will notify Customer of the hourly prices via electronic mail, or other method of communications acceptable to Company, by 4 p.m. of the preceding business day. Prices for Saturday, Sunday and Monday will generally be available on the preceding Friday. For a recognized holiday and the day following the holiday, prices will be available the preceding Company business day. Whenever prices are provided in excess of a day ahead and updated projections would result in significantly different prices, Company reserves the right to issue revised prices provided such prices are conveyed no later than 4 p.m. on the preceding calendar day.

Company is not responsible nor liable for Customer's failure to receive and act upon the hourly prices. If Customer does not receive these prices, it is Customer's responsibility to inform Company so that future prices may be supplied.

SALES AND FRANCHISE TAX OR PAYMENT IN LIEU THEREOF

To the above charges will be added any applicable South Carolina sales tax, and for those customers within any municipal or other local governmental jurisdiction, an appropriate amount to reflect any franchise fee, business license tax, or similar percentage fee or tax, or charge in lieu thereof imposed by such entity.

PAYMENTS

Bills are due when rendered and are payable within 15 days from the date of the bill. If any bill is not so paid, the Company has the right to suspend service in accordance with its Service Regulations. In addition, any bill not paid on or before the expiration of twenty-five (25) days from the date of the bill is subject to an additional charge of 1% per month as provided in Rule 103-339(3) of the Rules and Regulations of the South Carolina Public Service Commission.

CONTRACT PERIOD

The Contract Term shall be for one year and will be automatically renewed annually unless terminated by either party by giving not less than thirty (30) days written notice of termination. In the event the Contract Period extends beyond December 31, 2007, the Contract Period shall instead be a period ending December 31, 2007. During the initial 12 months of service under this Schedule, the Contract Period may be terminated, at Company's option, when continued service under this Schedule will result in a demonstrable economic hardship for the Customer.

GENERAL

Service rendered under this Schedule is subject to the provisions of the Service Regulations and any changes therein, substitutions therefor, or additions thereto lawfully made.

Company makes no representation regarding the benefits of Customer subscribing to this Schedule. Customer, in its sole discretion, shall determine the feasibility and benefits of Customer subscribing to this Schedule.

Supersedes Schedule LGS-RTP-4
Effective for service rendered on and after October 28, 2004
SCPSC Docket No. 97-057-E, Order No. 2004-545

STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 2006-1-E

In the Matter of:

Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., - Annual Review of Base Rates for Fuel Costs	)))	**CERTIFICATE OF SERVICE**

I, Len S. Anthony, hereby certify that Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.'s (PEC) Response in Opposition to Nucor Steel's Motion to Compel has been served on all parties of record either by hand delivery or by depositing said copy in the United States mail, postage prepaid, addressed as follows this the 24th day of April, 2006:

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